

# FDIC State Profile

Summer 2004

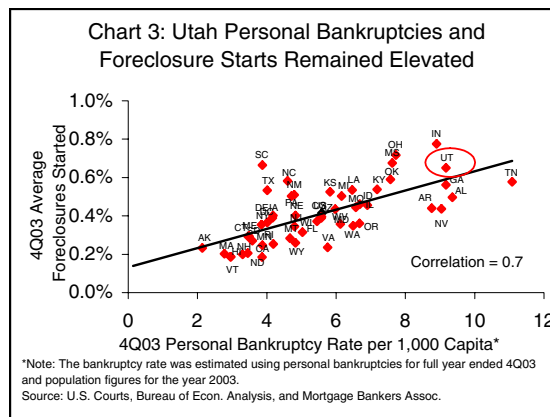
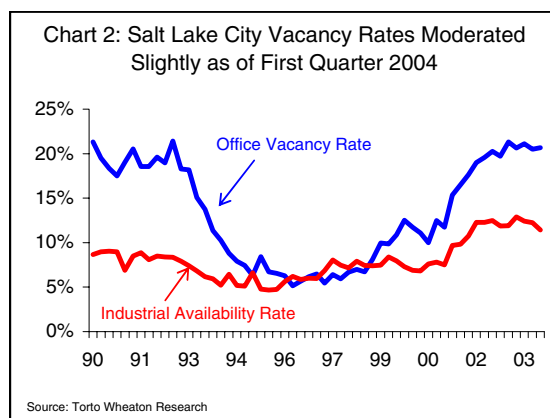
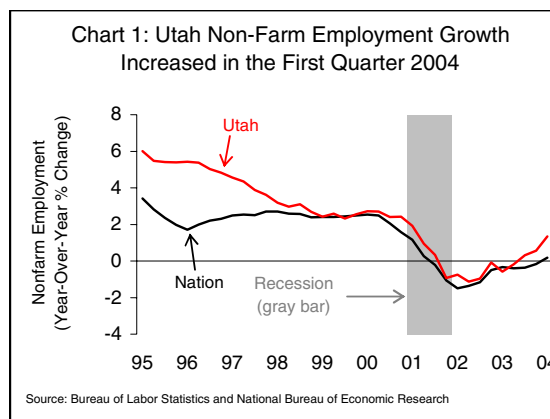
## Utah

Strength in the services sector boosted Utah's nonfarm employment growth in the first quarter of 2004.

- Total nonfarm employment increased 1.3 percent year-over-year as of first quarter 2004 with the educational and health, and professional and business service sectors experiencing the highest rates of job growth (See Chart 1). Employment in the leisure and hospitality sector increased by 2 percent over the same period. Utah experienced a record ski season; the number of ski and snowboard area visitors increased 7 percent, compared to the 2002-2003 season.<sup>1</sup>
- Although the manufacturing sector continued to contract, the decrease was significantly less than the decrease in first quarter 2003. Additionally, the dollar volume of venture capital funding to Utah companies increased 17 percent in 2003,<sup>2</sup> although only one venture capital deal was closed in the first quarter of 2004.<sup>3</sup>

Commercial real estate (CRE) market conditions in the Salt Lake City Metropolitan Statistical Area (MSA) remained soft, while high levels of CRE concentrations continued at Utah-based institutions.

- Office and industrial CRE vacancy rates in the Salt Lake City MSA remain high, but have decreased slightly. The Salt Lake City MSA office vacancy was 20.7 percent as of March 31, 2004, and the industrial vacancy rate was 11.4 percent. High Salt Lake City MSA office and industrial CRE vacancy rates were, in part, a reflection of weakness in the high-tech sector (See Chart 2). In particular, the first quarter 2004 Salt Lake City MSA office vacancy rate was the highest among major MSAs in the San Francisco Region, and vacancy rates were elevated across all office property classes.<sup>4</sup>



<sup>1</sup>Rafferty, Nathan, "Utah Resorts Set All-Time Skier Visits Record", Ski Utah, May 3, 2004.

<sup>2</sup>Anderton, Dave, "Venture Investments Jump", Deseret Morning News, May 6, 2004.

<sup>3</sup>Anderton, Dave, "Venture Capital Tumbles", Deseret Morning News, April 27, 2004.

<sup>4</sup>For further analysis of the Salt Lake City MSA office CRE market, refer to the FDIC Outlook, Spring 2004.

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- Most established community institutions<sup>5</sup> headquartered within the Salt Lake City MSA hold high CRE loan<sup>6</sup> concentrations. The median CRE loan-to-Tier 1 capital ratio was 424 percent as of March 31, 2004, up from 192 percent ten-years earlier. Rising construction and development (C&D) loan concentrations contributed materially to the trend. Over the past decade, the median C&D loan-to-Tier 1 capital ratio almost doubled, rising from 78 percent to 147 percent.
- Softer CRE conditions may have adversely affected credit quality among banks operating in the market. Among established community institutions headquartered in the Salt Lake City MSA, the first quarter 2004 median past-due CRE loan ratio was 1.35 percent, down from 1.67 percent one-year earlier, but the highest median past-due CRE loan ratio of any major MSA in the Region.<sup>7</sup> However, these institutions also reported some of the highest fourth quarter 2003 median return on average assets (ROA), Tier 1 leverage capital, and allowance for loan-loss-to-total loan ratios of all major MSAs in the Region.

### High debt levels contributed to increased bankruptcy and foreclosure activity in Utah.

- Despite recent employment growth, Utah continued to report one of the highest personal bankruptcy and foreclosure start rates in the nation as of fourth quarter 2003 (See Chart 3). Although the Utah personal bankruptcy rate decreased in 2003, the state filing rate was 1.6 times the national average.<sup>8</sup> According to the **Mortgage Bankers Association (MBA)**, the fourth quarter 2003 Utah foreclosure start rate was 0.67 percent of all mortgages, up slightly from the fourth quarter 2002 level of 0.64 percent, and significantly exceeding the national rate of 0.46 percent.
- Among the states, Utah ranked last in home price appreciation in 2003.<sup>9</sup> Utah home prices increased by only 1.6 percent in 2003, a fraction of the 8 percent national appreciation rate.
- Despite these negative trends, the median past-due 1-4 family mortgage ratio decreased from 3.07 percent to 1.09

percent year-over-year as of first quarter 2004 among Utah-based established community institutions, and fell below the ratio of 1.62 percent reported by established community institutions across the nation.

- Consumer loan credit quality improved. The median past-due consumer loan ratio among the 30 established community institutions headquartered in Utah decreased from 2.69 percent to 2.30 percent year-over-year as of March 31, 2004. The median consumer loan net charge-off ratio improved to 0.31 percent for first quarter 2004, compared to 0.55 percent for first quarter 2003.

### In Utah, Industrial Loan Corporations (ILCs) showed substantial gains in terms of number of institutions and asset holdings.

- ILCs accounted for 42 percent of insured institutions headquartered in Utah and 65 percent of the total assets as of March 31, 2004, up from 34 percent and 37 percent, respectively, as of March 31, 1999, five-years earlier (See Chart 4). Five of the six institutions opened in 2003 were ILCs. Most Utah-based ILCs are specialty lenders, owned by large multi-national commercial corporations, or by parent organizations active in other financial services. Return on average assets (ROA) increased at most Utah-based ILCs year-over-year as of first quarter 2004; however, the median ROA for Utah-based ILCs would show a decline, if new ILCs were included. Despite narrowing net interest margins, the ROA improved, aided by gains from reduced loan-loss provisioning.

### Earnings performance among Utah-based insured institutions, excluding ILCs, decreased year-over-year as of first quarter 2004.

- The median ROA ratio reported by non-ILC Utah-based insured institutions declined to 1.27 percent as of first quarter 2004, down from 1.54 percent one-year earlier. The falloff in profitability resulted from higher overhead expenses and slight declines in margins and noninterest income.

<sup>5</sup>Established community institutions are defined as insured institutions open more than three years, with less than \$1 billion in total assets, excluding industrial loan companies and specialty institutions.

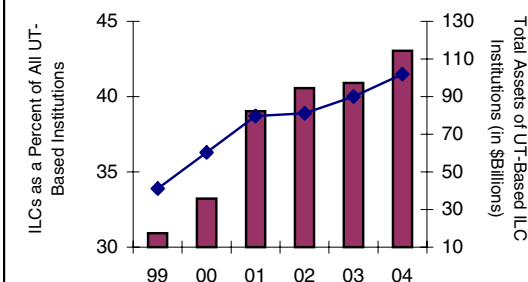
<sup>6</sup>CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

<sup>7</sup>Based upon a comparison of second quarter 2003 median past-due CRE loan ratios within 19 MSAs, in which at least 5 established community nonspecialty institutions with CRE loans were headquartered.

<sup>8</sup>Anderton, Dave, "Utah Still Ranks First in Bankruptcy Filings", Deseret Morning News, March 26, 2004.

<sup>9</sup>"OFHEO Releases Second Quarter 2003 House Price Index", Office of Federal Housing Enterprise Oversight, December 1, 2003.

Chart 4: Utah-Based ILCs Have Increased as a Percentage of All Utah-Based Institutions



Note: ILC = Industrial Loan Corporation  
Source: Utah Bank and Thrift Call Reports (March of each year)

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### Utah at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	65	60	59	62	55
Total Assets (in thousands)	175,122,346	132,586,670	129,056,441	112,032,498	67,733,308
New Institutions (# < 3 years)	8	10	12	15	11
New Institutions (# < 9 years)	30	26	27	29	22
Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	13.86	12.02	12.96	12.48	12.63
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	2.27%	3.31%	4.85%	3.63%	3.10%
Past-Due and Nonaccrual >= 5%	13	17	27	22	8
ALLL/Total Loans (median %)	1.50%	1.65%	1.79%	1.76%	1.78%
ALLL/Noncurrent Loans (median multiple)	1.70	1.69	1.80	1.56	1.81
Net Loan Losses/Loans (aggregate)	1.42%	2.40%	3.32%	2.59%	2.33%
Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	7	5	7	11	5
Percent Unprofitable	10.77%	8.33%	11.86%	17.74%	9.09%
Return on Assets (median %)	1.39	1.77	1.47	1.53	1.84
25th Percentile	0.88	1.02	0.82	0.54	1.05
Net Interest Margin (median %)	5.05%	5.51%	5.66%	5.90%	5.79%
Yield on Earning Assets (median)	6.54%	7.19%	7.96%	9.57%	9.20%
Cost of Funding Earning Assets (median)	1.27%	1.71%	2.15%	3.76%	3.57%
Provisions to Avg. Assets (median)	0.25%	0.40%	0.43%	0.44%	0.23%
Noninterest Income to Avg. Assets (median)	1.10%	1.78%	1.39%	1.35%	1.76%
Overhead to Avg. Assets (median)	3.78%	3.67%	4.08%	4.87%	4.13%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	86.67%	88.71%	87.68%	85.13%	85.86%
Loans to Assets (median %)	70.93%	72.99%	72.72%	68.91%	65.38%
Brokered Deposits (# of Institutions)	33	31	28	24	17
Bro. Deps./Assets (median for above inst.)	28.49%	23.80%	21.64%	31.63%	31.51%
Noncore Funding to Assets (median)	22.35%	24.76%	25.64%	20.93%	21.64%
Core Funding to Assets (median)	32.49%	44.85%	49.63%	48.71%	52.77%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	47	43	42	43	37
National	7	7	7	8	8
State Member	6	6	6	6	6
S&L	1	1	1	1	1
Savings Bank	4	3	3	4	3
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Salt Lake City-Ogden UT	46	171,996,216	70.77%	98.21%	
No MSA	12	1,682,535	18.46%	0.96%	
Provo-Orem UT	7	1,443,595	10.77%	0.82%	